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Hughes Aircraft Faces Allegation That It Used Bribery in Indonesia

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An unpublicized dispute between two of America's largest electronics corporations over allegations of large-scale bribery of Indonesian officials has again raised questions about the lack of Federal controls over such payoffs and the need for international cooperation to end them.

The controversy, as reconstructed by The New York Times, began late in 1973 when a high-ranking Indonesian official agreed to meet in Jakarta with representatives of the General Telephone and Electronics Corporation, an American-owned multinational concern seeking a $330 million contract for electronic and telephone equipment.

The official was blunt, according to the Americans: A contract was possible, but he would need a $40 million cash payoff. The Americans refused and the business went to their chief competitor in Indonesia, the Hughes Aircraft Company.

The situation arose after the Indonesian Government decided to construct a nationwide satellite communications system, a system whose cost climbed from an initial estimate of less than $80 million to more than $160 million.

A bitter conflict arose between General Telephone and Hughes, with at least two former sales agents of General Telephone accusing Hughes Aircraft of paying bribes of 20 percent or more to Indonesian officials. Senior executives of Hughes Aircraft, a major part of the business empire of the late Howard R. Hughes, have emphatically denied the allegations.

More than $50 million in United States-guaranteed loans were granted by the Export-Import Bank in Washington to help finance the satellite system. The bank made the loans despite knowledge of the allegations of a payoff and conducted no inquiry into the allegations, though it did require statements by the contracting parties that no payoffs were demanded or made.

Three-Month Investigation

The Times, in an extensive series of interviews during a three-month investigation in Southeast Asia and the United States, was informed by Indonesian officials, foreign intelligence agents and business and sales agents with direct involvement in the negotiations that at least 20 percent of the purchase price of the satellite system was funneled to Indonesians in payoffs.

It could not be established independently that money was paid by Hughes Aircraft, which is based in Culver City, Calif. Nor could it be learned how any payments were made and to whom.

Such payoffs by American concerns operating overseas are not illegal. Late last year the Senate, acting after highly publicized payoff scandals in Japan and elsewhere, approved legislation calling for criminal sanctions against such activity, but the measure, which did not include enforcement provisions, was not acted upon by the House of Representatives.

The Securities and Exchange Commission has been conducting a lengthy investigation into overseas payments and, pending its conclusion, has set up a voluntary compliance program for corporations wishing to disclose such payments. The program does not provide for full public disclosure of the volunteered corporate information.

The Multinational Subcommittee of the Senate Foreign Relations Committee has held extensive hearings in recent years into overseas payoffs by Lockheed and other defens contractors. Its proposed legislation calling for full disclosure of corporate payments has yet to be considered by Congress.

Experiences such as that described by agents of General Telephone, which has its main offices in Stamford, Conn., have become routine facts of life in international business. Salesman say they constantly find themselves under competitive pressure to make substantial kickbacks or payoffs in return for foreign contracts. What makes the experience of General Telephone in Indonesia different is that some of those involved decided to complain — to the American Embassy in Jakarta, to officials of the Central Intelligence Agency, to the Export-Import Bank and, finally, to the press.

Subsequent inquiry has raised a number of questions about the procedures used by the Export-Import Bank on foreign loans in support of the purchase of American goods.

The inquiry found further that American concerns, which had justified payoffs as necessary because of competition from foreign companies, began to compete among themselves to see which could offer the biggest payoffs.

Significantly, growing numbers of American business executives believe that some form of international cooperation is necessary to curb such activities.

Telephone Modernization Planned

The role of General Telephone in Indonesia began shortly after it learned that the Government had decided to modernize the telephone system in Jakarta, the capital, and in outlying regions. As part of that project, the Government decided on the satellite communications system, which could link the 3,500-mile-long chain of islands. General Telephone's initial $330 million proposal, included a $250 million esttimate for telephone circuits and equipment.

The Indonesian official implicated by the American executives was Major General Sohardjono, Director General of Posts and Telecommunications. During the meeting, held in his office, a participant recalled, he "asked directly for a kickback" and said it could be added to the price. "I said, 'No way!'" the American recalled. "He laughed and I laughed, and that was it."

"I wasn't about to go back to management and say, 'Hey, we need $40 million to get the contract,'" he added. "There was no way anyone in the company was going to go along with this."

The executive asserted, however, that if General Sohardjono had scaled his request down to the usual agent's fee of $3 million or $4 million, "we might have gone along"—as General Telephone has apparently "gone along" in the past. The Securities and Exchange Commission has disclosed that it gave four Philippine investment officials more than $4 million in questionable payments in a transaction involving a long-distance telephone company. No criminal act was alleged.

Denial by a Vice President

Asked about General Telephone's experience in Indonesia, William L. Mayo, a vice president for Asian and Pacific affairs, said in an interview that to his knowledge the company had no indication of payoff requests here. "I was never approached," he said, though he did acknowledge meeting at least once with General Sohardjono to discuss the General Telephone proposal.

A source with direct ties to the concern said that Mr. Mayo's comment was a reflection of General Telephone's apprehension that unfavorable publicity about the Indonesian matter would damage its international credit rating. In addition, the source said, top officers "did not want to imply that G.T.E., as the most ultrapure, was complaining about the big bad world" since "they don't pretend to be all that clean."

Allegations of large-scale payoffs in connection with the installation of the Indonesian satellite system, which began limited operations in August, have been widespread in the electronics and aerospace industries. The Times first learned of the charges during an interview in September with Dr. Thomas P. Cheatham Jr., a former high-level Pentagon official who was employed as a consultant by General

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